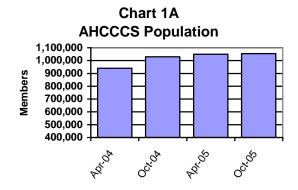
CHAPTER 1 OVERVIEW OF AHCCCS

The Arizona Health Care Cost Containment System (AHCCCS) is Arizona's Medicaid program. As of October 1, 2005, AHCCCS was providing health care coverage to over 1,055,000 members.

AHCCCS has operated under an 1115 Research and Demonstration Waiver since 1982 when the

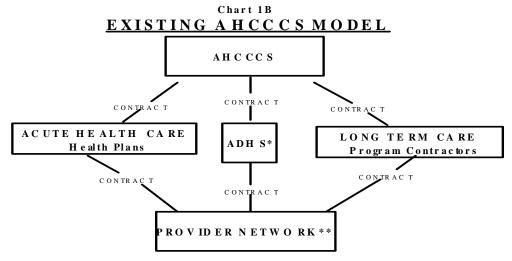
original waiver was granted by the Centers for Medicare and Medicaid Services (CMS). During that period, a number of waiver extensions have been approved by CMS. AHCCCS currently has a five-year extension that will expire on September 30, 2006. AHCCCS will seek an extension of the waiver with CMS.

AHCCCS was created to defray the cost of indigent health care. Prior to 1982, Arizona was the only state in the nation that had declined federal Medicaid funds for low-income women, children, aged, blind, and the disabled. Rather than accepting federal



funds for health care, the state retained a disjointed system of indigent health care provided by individual counties as they saw fit and could afford. In 1980, the counties turned to the Arizona Legislature for help. The Legislature responded and passed legislation in 1981 that created the Arizona Health Care Cost Containment System (AHCCCS). On October 1, 1982, AHCCCS became the first statewide Medicaid managed care system in the nation.

AHCCCS was created as a partnership between the state and private and public managed care Health Plans that mainstreamed Medicaid recipients into private physician offices. This arrangement opened up the private physician network to Medicaid recipients and allowed AHCCCS members to choose a Health Plan and a primary care provider. The plan and provider acted as gatekeepers managing all aspects of medical care for a member. AHCCCS Health Plans are paid an upfront, or prospective, monthly capitation amount for each member enrolled with the Health Plan. This capitation concept, although new to Medicaid in 1982, was patterned on the way many consumers paid for private health care insurance. Health Plans engage in a competitive bid process and receive regulatory oversight by the AHCCCS administration including operational and financial reviews of the Health Plans and contract monitoring to ensure quality of care.



Beh av ioral Health services for acute care members are provided through the ADHS contract by Region all Beh av ioral Health Authorities. Program Contractors provide behavioral health services for ALTCS members. Almost all Health Plans and Program Contractors provided ental services fee-for-service.

The program began on October 1, 1982, 11 months after the legislation was approved. The state contracted with a private administrator, McAuto Systems Group, Inc., who was unable to establish a provider network, provide adequate regulatory oversight, develop a uniform accounting system, or maintain a computer system capable of supporting a managed care model. Reimbursement was inadequate and many providers left the system. The turnaround began slowly in 1984 after the state ended the contract with McAuto and Governor Babbitt created a cabinet-level agency reporting directly to him.

From the beginning, AHCCCS has operated under an 1115 Research and Demonstration waiver granted by the Department of Health and Human Services. Under that waiver, the state can operate a statewide, managed care system and require all enollees to enroll in a contracted Health Plan. After AHCCCS stabilized, the Arizona Legislature added long term care benefits through the Arizona Long Term Care System (ALTCS). The ALTCS program has been touted as a model for the nation mainly for its reliance on community based placements and support services in lieu of institutional care for the elderly, physically disabled and developmentally disabled populations. Unique among the states, ALTCS bundles all long term care services into a package (acute, behavioral health, case management, home and community-based services and institutional care) that is coordinated by various Program Contractors under contract with AHCCCS in all counties in the state. Like the acute care program, AHCCCS reimburses Program Contractors with a capitation payment for each enrolled member.

AHCCCS has undergone many changes since 1990. In 1991, the first managed care computer system in the nation was brought on-line after several years of intense effort. In addition to the major system changes, AHCCCS has implemented many new programs and initiatives.

In 1995, AHCCCS completed a five-year phase-in of behavioral health care services for the Medicaid program. In contrast to the long-term care program, behavioral health services for the acute care population are carved-out and delivered through an Intergovernmental Agreement between AHCCCS and the Arizona Department of Health Services (ADHS). ADHS contracts with Regional Behavioral Health Authorities (RBHAs) and Tribal RBHAs to deliver behavioral health services to members.

In 1995, AHCCCS launched a major quality improvement initiative designed to test new ways to measure quality of care in a managed care environment.

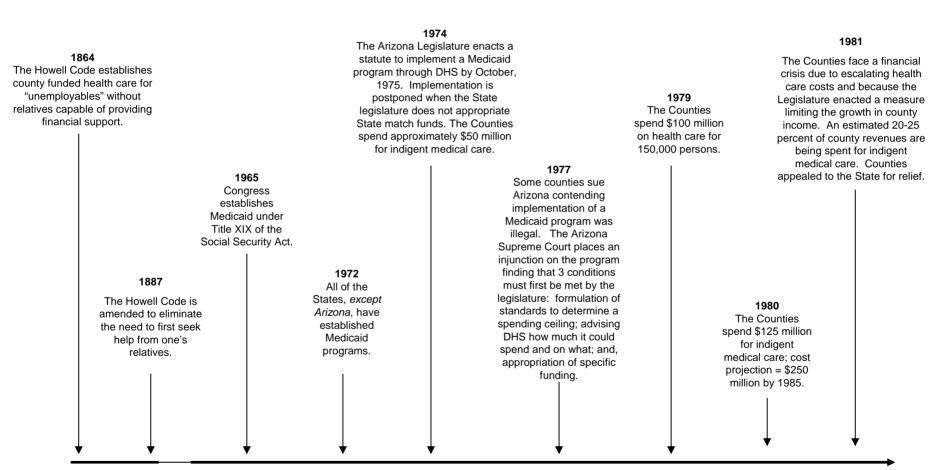
In 1998, AHCCCS implemented the State Children's Health Insurance Program (KidsCare) with 75 percent federal funding for uninsured children.

In November 2000, Arizona voters approved Proposition 204, which expanded income limits to 100 percent of the Federal Poverty Level (FPL) and added over 88,000 new people to the AHCCCS rolls in 18 months.

In January of 2003, parents of KidsCare and Medicaid enrolled children with incomes between 100 percent and 200 percent FPL became eligible under a HIFA II waiver.

AHCCCS has evolved into a mature and well-respected health care system. Many independent studies have praised the program. In fact, in 2002, the Nelson A. Rockefeller Institute of Government called AHCCCS a "smashing success" and cited Arizona as the "gold standard" for the nation as a model purchaser of health care services. In 2002, the Auditor General also commented that AHCCCS "has been able to effectively manage member growth." Also in 2002, of ten states studied, "only Arizona has met the standards required for prudent purchasing of Medicaid Managed Care" (Center for Health Care Strategies 2002). According to the Lewin Group, in 2003, pharmacy costs in the AHCCCS Medicaid program were found to be the lowest nationally. Most recently in 2005, the Health Subcommittee of the U.S. House Energy and Commerce Committee looked to Arizona as it considered its plan to reform Medicaid, and the Medicaid Commission, appointed by the Bush Administration, invited AHCCCS to present as a leader in best-practices.

Health Care in Arizona before AHCCCS



1981

On November 18. Governor Bruce Babbitt signed into law Senate Bill 1001, which establishes AHCCCS as a program within DHS. AHCCCS is authorized to deliver prepaid capitated health care statewide to Title XIX eligible persons and Statefunded indigent persons.

AHCCCS operates as a prepaid, capitated managed care demonstration project under Medicaid

Three year demonstration waiver is approved by the Centers for Medicare and Medicaid Services (CMS) enabling the implementation of the AHCCCS acute care program on October 1, 1982.

1982

In May, DHS contracts with McDonnell **Douglas Automation** System Group, Inc. (McAuto) to administer the AHCCCS program.

1982

1984

AHCCCS becomes an independent State agency (previously a Division of the Department of Health Services).

1984

Arizona terminates the McAuto contract and takes over the administration of AHCCCS on March 16.

1987

Waiver request includes proposal for Arizona Long Term Care System (ALTCS). ALTCS proposal is approved by CMS which also approves demonstration waiver for an additional year.

1988

ALTCS program implemented on December 19, 1988 for the developmentally disabled and January 1, 1989 for the elderly or physically disabled.

Beginning January 1, 1988, small employers in four counties are allowed to purchase medical coverage for their employees from AHCCCS Health Plans through Healthcare Group.AHCCCS receives CMS approval of waiver through September 30, 1993 (5 years).

1988

1989

A survey commissioned by the Flinn Foundation showed that the overwhelming majority of AHCCCS members were completely satisfied with the program and that only 5 percent of members were dissatisfied with the care they received.

1981 1989

1985

AHCCCS

demonstration

waiver extended

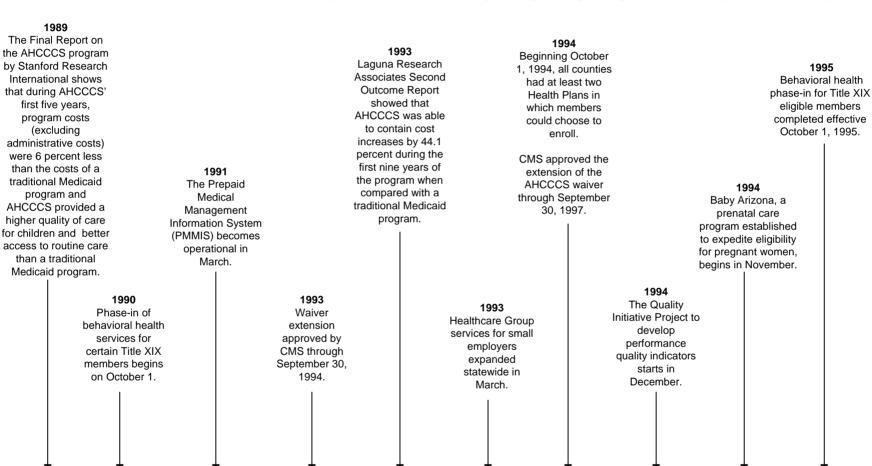
by CMS for two

additional years

through

September 30,

1987.



1995

A GAO Report cited AHCCCS for its success in containing costs, and providing access to mainstream medical care.

1995

With the support of CMS, AHCCCS begins a major Quality Improvement Initiative. The Initiative was designed to use encounter data to test new concepts of quality of care based on many of the measurements from QARI and the HEDIS 2.0, 2.5 and 3.0 Reports.

1997

The first statewide survey of AHCCCS acute care members was conducted in 1996 by the Arizona State University. The overall survey results, which are based on interviews with over 14,000 members, are very favorable to the AHCCCS program, with at least three-fourths of the respondents giving a rating of "good" or "very good" in response to the six questions which rated the overall quality of AHCCCS Health Plans.

1997

AHCCCS' first national conference on managed care, "AHCCCS: Arizona's Medicaid Managed Care Experience" was held November 2-4, 1997 in Scottsdale, Arizona. The conference was a huge success, with more than 325 attendees from across the United States.

1995

A special report on AHCCCS using data from a Flinn Foundation study concludes that AHCCCS has shown increased use of private-sector physicians, clinics and hospitals and consistently high levels of satisfaction.

1996

Laguna Research Associates, in their Final Report, finds that their evaluations of the program indicate success in delivering services statewide to Medicaid eligibles in all eligibility groups and that the cumulative total cost savings estimated for the program was nearly \$500 million as of 1993. Trending these savings through September 30, 1997, the cumulative savings are almost \$1 billion.

1997

In May 1997, AHCCCS submitted an amendment to the 1115 Demonstration Waiver to CMS which proposes to offer Medicaid eligibility to adults and children with income up to 100 percent of the federal poverty level. The amendment was the result of a ballot measure which was overwhelmingly approved by Arizona voters in November 1996

1998

The state-funded Premium Sharing Program was implemented as a three year pilot in four Arizona counties on February 1. The program provides health care, based on a sliding scale monthly premium, to uninsured persons who do not qualify for Medicaid or the statefunded AHCCCS program. The program also provides coverage to chronically ill persons who are unable to obtain health insurance through the usual sources.

The Hawaii Arizona

PMMIS Alliance (HAPA)

project began. The

project is a collaboration

by the Medicaid agencies

in Hawaii and Arizona to

modify Arizona's

information system to

support the Hawaii QEST

program. First phase

completed December

2000.

1998

In the BBA of 1997, the federal government established separate funding under Title XXI for states to create program's for uninsured children under the age of 19. Arizona implemented its version of a State Children's Health Insurance Program ("KidsCare") on November 1, 1998. During the first year, children under 150 percent of the federal poverty level (FPL) will be covered.

1998

1999

AHCCCS began a pilot program using a universal paper application October 1. On October 1, 1999, the income eligibility level was raised to 200 percent of FPL as a result of state legislation passed in the 1999 session. Premiums are required for persons who have an FPL above 150 percent of FPL.

1999

In February 1999, CMS

extended the waiver until the

end of September 1999 and

approved an increase on the

HCBS cap to 50 percent.

2000

The Maricopa County ALTCS competitive RFP is released on February 25th. The objective is to provide more than 9,600 elderly or physically disabled ALTCS members in Maricopa County with a choice of contractors for the first time. Contracts were awarded to three Program Contractors in June 2000.

2000

In July 2000, CMS approved a 3-year waiver extension for the period from October 1, 1999 through September 30, 2002 and removed the HCBS cap on the ALTCS program.

2002

In January 2002, AHCCCS launched the Breast and Cervical Cancer Treatment program for women who are screened and diagnosed as needing treatment by the Arizona Department of Health Services Well Women Healthcheck program.

2002

2001

In January 2001, CMS approved AHCCCS' request to expand eligibility to 100 percent of the FPL for the acute care program and waive the requirement to prior quarter coverage to new enrollees in both the acute and ALTCS programs.

In December, CMS extended AHCCCS 1115 waiver authority through September 30, 2006.

2003 2004 On January 1, 2003 On July 1, 2004, 2004 eligibility for parents of AHCCCS began Maricopa county long term care SCHIP children with reimbursing outpatient program contracts were household income up hospital services using extended to September 30, to 200% FPL was a hospital-specific 2006, to allow the alignment of established. cost-to-charge ratio in all long-term care program 2003 2005 an effort to control contractors bid cycle across the **AHCCCS Customer Eligibility** Implementation of the AZ 211 hospital charges. state. System (ACE), the new eligibility website for health and human system for ALTCS, began to be services information and web rolled out in 2003. ACE is an links interactive interviewing system.

2005

2004